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HIGHER US TARIFFS ON STEEL/ALUMINUM IMPORTS AND JAPAN'S RESPONSE

Shujiro Urata

- US President Trump's America First policy undermines the rules-based world trade system under the WTO, and will possibly bring about an economic crisis.
 - Countries targeted by the US' imposition of tariffs should refrain from retaliation, in order to avoid a trade war, which would hurt all the countries involved.
- Japan should promote the establishment of mega-regional FTAs such as the TPP11 and RCEP with like-minded countries to fight against growing protectionism such as the America First policy.

The views expressed in this piece are the author's own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.

On March 23 the US government applied Section 232 of the Trade Expansion Act (for reasons of national security) to imports of steel and aluminum, raising the tariffs on these by 25 and 10 percentage points respectively. With President Trump having already signed a document on March 8 authorizing this step, the process to implement these tariff hikes is now underway. Out of concern that application of this Act could violate World Trade Organization (WTO) rules, the Act has only been applied twice since it was enacted in 1962: against Iran in 1979 and against Libya in 1982 (both times on crude oil). In applying it this third time, the government explained that domestic production of steel and aluminum is essential for the production of fighter aircraft and other military equipment, and that protecting these industries is therefore vital for national security. However, many observers contend that domestic politics has played a dominant role in this matter.

President Trump advocated an “America First” doctrine during the 2016 presidential campaign, publicly pledging to protect domestic industry and jobs from imports, and he is now seeking to make good on these campaign promises. There was an March 13 election in Pennsylvania, a battleground state hotly contested during the presidential election, to fill a seat in the US House of Representatives, and there will be midterm elections this coming November that are generally regarded as an appraisal of the incumbent president. To garner support in both of these, Trump is restricting imports by raising tariffs to protect domestic industry and jobs.

Will higher tariffs on steel and aluminum imports protect/expand production and jobs and revive both industries, as the Trump administration expects? While it is quite possible that production and employment will expand on a temporary basis, it seems quite unlikely that these measures will restore the fortunes of industries that have lost their competitiveness. One major problem will be the adverse impact that these tariffs will have on the automotive industry and other industries that use steel and aluminum. Raising tariffs on steel and aluminum will bring about higher costs and prices for automobiles and other goods, and both consumption and production of these will decline. Diminished price competitiveness will also cause exports to decline and imports to grow,

leading to a slowdown in the production of automobiles and other goods, which in turn will result in lower production of steel and aluminum. If this chain reaction is set in motion, the benefits of maintaining and expanding steel and aluminum production and jobs – the very aims of the tariff hikes – will be lost. In fact, research has shown that the higher tariffs imposed on steel by President Bush in 2002 had a negative impact on jobs across all industries.

Tariff hikes will also cause the US problems in its foreign relations. Countries compelled by higher tariffs to reduce their own exports are very likely to retaliate by increasing tariffs on imports from the US (exports by the US). In fact, China is considering boosting tariffs on wine, pork and other agricultural products imported from the US as well as on industrial products such as steel and aluminum. If US trading partners adopt retaliatory measures, any retaliatory measures taken in response by the US would set off a trade war. Given that a substantial drop-off in exports, production and jobs due to a trade war helped trigger World War II, it is imperative that all parties avoid a trade war, recognizing that no country would come out a winner.

As a US ally, Japan had presumed that it would be exempted from the tariff hikes, but this expectation was betrayed. President Trump seemingly wants to use these hikes as bargaining chips to persuade the Japanese government to adopt measures allowing greater access to the Japanese market for US exports of automobiles and agricultural products. With Japan's steel and aluminum industries bound to suffer losses from reduced exports, how should the Japanese government respond? Instead of resorting to retaliatory measures that could escalate into a trade war, Japan would be best served by appealing to the WTO and awaiting a ruling from a dispute resolution body recognized internationally. Pursuing this course of action and complying with an internationally agreed ruling not only will enable Japan to avoid criticism but will also help maintain and bolster the WTO regime. To keep the US' unilateral protectionist policies from proliferating to other countries/regions, Japan should actively seek to establish and expand mega-FTA such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a free and

open rules-based trading system in whose creation Japan took on a leading role.

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